

# *Office of the State Auditor*

## *Division of State Audit*

### Office of the Governor Bismarck, North Dakota

Audit Report for the  
Biennium Ended June 30, 2007  
Client Code 101

*Robert R. Peterson*  
*State Auditor*



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## *Transmittal Letter*

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June 9, 2008

The Honorable John Hoeven, Governor  
Members of the North Dakota Legislative Assembly

We are pleased to submit this audit of the Office of the Governor for the biennium ended June 30, 2007. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the state of North Dakota. Naturally we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

The senior auditor for this audit was Orlin Bensen, LPA. Al Stroklund was the staff auditor. Fred Ehrhardt, CPA was the audit supervisor and Paul Welk, CPA was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 328-2320. We wish to express our appreciation to Governor Hoeven and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

Robert R. Peterson  
State Auditor

# *Executive Summary*

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## **INTRODUCTION**

The Office of the Governor was established within Article V of the Constitution of North Dakota. The Governor is the chief executive of the state and shall have the responsibility to see that the state's business is well administered and the laws of the state are faithfully executed.

John Hoeven currently holds the Office of the Governor. The Lieutenant Governor is Jack Dalrymple. The goals and objectives of the Hoeven administration are to create greater prioritization and efficiencies in state government with the cooperation of agencies to establish goals and objectives on an annual basis.

## **RESPONSES TO LAFRC AUDIT QUESTIONS**

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The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies.

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### *1. What type of opinion was issued on the financial statements?*

Financial statements were not prepared by the Office of the Governor in accordance with generally accepted accounting principles so an opinion is not applicable. The agency's transactions were tested and included in the state's basic financial statements on which an unqualified opinion was issued.

### *2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?*

Yes.

### *3. Was internal control adequate and functioning effectively?*

Yes.

### *4. Were there any indications of lack of efficiency in financial operations and management of the agency?*

No.

### *5. Has action been taken on findings and recommendations included in prior audit reports?*

There were no recommendations included in the prior audit report.

6. *Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.*

Yes, a management letter was issued and is included on page 13 of this report, along with management's response.

### **LAFRC AUDIT COMMUNICATIONS**

1. *Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.*

There were no significant changes in accounting policies, no management conflicts of interest were noted, no contingent liabilities were identified or significant unusual transactions.

2. *Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.*

The Office of the Governor's financial statements do not include any significant accounting estimates.

3. *Identify any significant audit adjustments.*

Significant audit adjustments were not necessary.

4. *Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.*

None.

5. *Identify any serious difficulties encountered in performing the audit.*

None.

6. *Identify any major issues discussed with management prior to retention.*

This is not applicable for audits conducted by the Office of the State Auditor.

7. *Identify any management consultations with other accountants about auditing and accounting matters.*

None.

8. *Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.*

ConnectND Finance and the Human Resource Management System (HRMS) are high-risk information technology systems critical to the Office of the Governor.

# ***Audit Objectives, Scope, And Methodology***

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## *Audit Objectives*

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The objectives of this audit of the Office of the Governor for the biennium ended June 30, 2007 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the highest risk areas of the Office of the Governor's operations and is internal control adequate in these areas?
2. What are the significant and high-risk areas of legislative intent applicable to the Office of the Governor and are they in compliance with these laws?
3. Are there areas of the Office of the Governor's operations where we can help to improve efficiency or effectiveness?

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## *Audit Scope*

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This audit of the Office of the Governor is for the biennium ended June 30, 2007. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Office of the Governor's sole location is its central office which will be included in the audit scope.

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## *Audit Methodology*

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To meet the objectives outlined above, we:

- Prepared financial statements from the legal balances on the state's accounting system tested as part of this audit and the audit of the state's Comprehensive Annual Financial Report and developed a discussion and analysis of the financial statements.
- Performed detailed analytical procedures including computer assisted auditing techniques. These procedures were used to identify high risk transactions and potential problem areas for additional testing.
- Tested internal control and compliance with laws and regulations which included selecting representative samples to determine if controls were operating effectively and to determine if laws were being followed consistently. Nonstatistical sampling was used and the results were projected to the population. Further where applicable, populations were stratified to ensure that particular groups within a population were adequately represented in the

sample, and to improve efficiency by gaining greater control on the composition of the sample.

- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) ERP system. Given the complexity of the state's accounting system significant evidence was obtained from ConnectND.
- Observed the Office of the Governor's processes and procedures.

In aggregate there were no significant limitations or uncertainties related to our overall assessment of the sufficiency and appropriateness of audit evidence.

## ***Discussion And Analysis***

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The accompanying financial statements have been prepared to present the Office of the Governor's revenues and expenditures on the legal (budget) basis. The accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

For the biennium ended June 30, 2007, operations of the Office of the Governor were supported by appropriations from the state's general fund as well as federal funding.

### ***FINANCIAL SUMMARY***

Federal revenue is 99.7% of total revenue. The Office of the Governor received federal funds for the livestock assistance grant program to provide financial assistance to livestock producers whose forage was adversely impacted by the 2006 drought. Total revenues were \$2,308,948 for the year ended June 30, 2007 as compared to \$1,051,223 for the year ended June 30, 2006.

Total expenditures for the Office of the Governor were \$3,532,883 for the year ended June 30, 2007 as compared to \$2,302,882 for the prior year. The increase in total expenditures for the audited period primarily reflects grants made for the livestock assistance grant program (which also accounts for 57% of total expenditures in both years). All other expenditures remained fairly constant.

### ***ANALYSIS OF SIGNIFICANT VARIANCES BETWEEN FINAL BUDGETED AND ACTUAL EXPENDITURES***

The grants line item on the statement of appropriation had an unexpended appropriation of \$957,000. The livestock assistance grant program provided financial assistance to livestock producers whose forage was adversely impacted by the 2006 drought. The unexpended appropriation was caused by an overestimation of the amount of financial assistance that would be needed for the producers impacted by the 2006 drought.

## *Financial Statements*

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### **STATEMENT OF REVENUES AND EXPENDITURES**

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
<b><u>Revenues and Other Sources:</u></b>		
Federal Revenue	\$2,302,850	\$1,048,000
Other Revenue	6,098	3,223
<b>Total Revenues and Other Sources</b>	<u>\$2,308,948</u>	<u>\$1,051,223</u>
<b><u>Expenditures and Other Uses:</u></b>		
Salaries and Benefits	\$1,108,223	\$1,076,244
Major Operating Expenses		
IT-Data Processing	29,920	28,199
Travel	24,092	33,525
IT-Communications	16,792	17,120
Rentals/Leases – Equipment	11,097	9,180
Fees-Professional Services	10,157	44,177
IT-Equipment Under \$5000		11,872
Professional Development	5,465	3,525
Office Supplies	4,677	3,864
Other Operating Expenses	19,610	27,176
Grants, Benefits, and Claims	2,302,850	1,048,000
<b>Total Expenditures and Other Uses</b>	<u>\$3,532,883</u>	<u>\$2,302,882</u>

## STATEMENT OF APPROPRIATIONS

For The Biennium Ended June 30, 2007

<b>Expenditures by Line Item:</b>	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Benefits	\$ 2,284,968	\$ 5,000	\$ 2,289,968	\$ 2,185,577	\$ 104,391
Operating Expenses	352,369		352,369	292,165	80,204
Grants	2,500,000	1,807,850	4,307,850	3,350,850	957,000
Contingency	10,000		10,000		10,000
Roughrider Awards	10,800		10,800	2,731	8,069
<b>Totals</b>	<u>\$ 5,158,137</u>	<u>\$ 1,812,850</u>	<u>\$ 6,970,987</u>	<u>\$ 5,831,323</u>	<u>\$ 1,139,664</u>
<b>Expenditures by Source:</b>					
General Fund	\$ 2,598,137		\$ 2,598,137	\$ 2,476,168	\$ 121,969
Other Funds	2,560,000	\$ 1,812,850	4,372,850	3,355,154	1,017,696
<b>Totals</b>	<u>\$ 5,158,137</u>	<u>\$ 1,812,850</u>	<u>\$ 6,970,987</u>	<u>\$ 5,831,323</u>	<u>\$ 1,139,664</u>

### Appropriation Adjustments:

The increase of \$1,807,000 to the Grants line was due to increased federal authority to accept additional federal funds related to the Livestock Assistance Grant Program to provide financial assistance to livestock producers whose forage was adversely impacted by the 2006 draught. The increase funding in Salaries and Benefits in the amount of \$5,000 was provided by the North Dakota Trade Commission for an intern within the Office of the Governor. The grant and funding for additional salaries were authorized pursuant to House Bill 1001 Section 4 of the 59<sup>th</sup> Legislative Assembly.

### Expenditures Without Appropriations Of Specific Amounts:

The Governor's Special Fund has a continuing appropriation pursuant to House Bill 1001 Section 4 of the 59th Legislative Assembly. (\$4,441)

## *Internal Control*

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In our audit for the biennium ended June 30, 2007, we identified the following areas of the Office of the Governor's internal control as being the highest risk:

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### Internal Controls Subjected To Testing

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- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenditures.
- Controls effecting the safeguarding of assets.
- Controls relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.

The criteria used to evaluate internal control is published in the publication *Internal Control – Integrated Framework* from the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered necessary based on our assessment of audit risk. We concluded internal control was adequate.

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect (1) misstatements in financial or performance information, (2) violations of laws and regulations, or (3) impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we did not identify any significant deficiencies in internal control. However, we noted other matters involving internal control that we have reported to management of Office of the Governor in a management letter dated June 9, 2008.

## *Compliance With Legislative Intent*

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In our audit for the biennium ended June 30, 2007, we identified and tested the Office of the Governor's compliance with legislative intent for the following areas that we determined to be significant and of higher risk of noncompliance:

- Statutory salary of the Governor (NDCC 54-07-04).
- Statutory salary of the Lieutenant Governor (NDCC 54-08-03).
- Compliance with appropriations (2005 North Dakota Session Laws chapter 1).
- Proper use of the following legally restricted fund: Fund 304 – Governors Special Fund.
- Travel-related expenditures are made in accordance with OMB policy and state statute.
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with fixed asset requirements including record keeping, surplus property, lease and financing arrangements in budget requests, and lease analysis requirements.
- Compliance with payroll related laws including statutory salaries for applicable elected and appointed positions, and certification of payroll.
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).

The criteria used to evaluate legislative intent are the laws as published in the *North Dakota Century Code* and the *North Dakota Session Laws*.

*Government Auditing Standards* requires auditors to report all instances of fraud and illegal acts unless they are inconsequential within the context of the audit objectives. Further, auditors are required to report significant violations of provisions of contracts or grant agreements, and significant abuse that have occurred or are likely to have occurred.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Thus, we concluded there was compliance with the legislative intent identified above.

## *Operations*

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This audit did not identify areas of Office of the Governor's operations where we determined it was practical at this time to help to improve efficiency or effectiveness.

## ***Management Letter (Informal Recommendations)***

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June 9, 2008

The Honorable John Hoeven  
Governor of North Dakota  
State Capitol  
600 E Boulevard Avenue  
Bismarck, ND 58505

Dear Governor Hoeven:

We have performed an audit of the Office of the Governor for the biennium ended June 30, 2007, and have issued a report thereon. As part of our audit, we gained an understanding of the Office of the Governor's internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

Our audit procedures are designed primarily to enable us to report on our objectives including those related to internal control and compliance with laws and regulations and may not bring to light all weaknesses in systems and procedures or noncompliance with laws and regulations which may exist. We aim, however, to use our knowledge of your organization gained during our work to make comments and suggestions which we hope will be useful to you.

In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above, we noted certain conditions we did not consider reportable within the context of your audit report. These conditions relate to areas of general business practice or control issues that have no significant bearing on the administration of federal funds. We do, however, want to present our recommendations to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if these recommendations have been implemented, and if not, we will reconsider their status.

The following present our informal recommendations.

### **General**

#### **Informal Recommendation 07-1:** Employee Periodic Acknowledgement of Code

We recommend Office of Governor:

- Periodically effectively communicate the Code of Conduct or Business Code to all covered employees.
- Employees annually confirm their receipt and reading of the Code of Conduct or Business Code.

Informal Recommendation 07-2: Fraud Risk Assessment/Control Activities

We recommend that the Office of Governor:

- Establish and perform a fraud risk assessment on a comprehensive and recurring basis.
- Design and document the necessary control activities to ensure that each significant fraud exposure identified during the risk assessment process, including background investigations, has been adequately mitigated.

Informal Recommendation 07-3: Definition of Fraudulent Behavior

We recommend the Office of the Governor Human Resource Policy Manual be updated to include a description/definition of what constitutes fraudulent behavior.

Management of Office of the Governor agreed with these recommendations.

I encourage you to call myself or an audit manager at 328-2241 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,

Orlin Bensen  
Senior Auditor